IMPACT OF GST ON THE AUTOMOBILE INDUSTRY

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ABSTRACT

One of the most prosperous and rapidly expanding industrial sectors in India since liberalisation is the automobile sector. The sector can potentially expand and play a significant role in driving economic growth and job creation. To compete with the world's superpowers, the Indian government has also acknowledged the importance of the automobile sector to the country's economy and is presently putting the finishing touches on its Automotive Mission Plan 2026. GST will be implemented in India's industrial sector, according to the Indian government.

KEYWORDS: GST, Automobile Sector, Economic Development,

INTRODUCTION

The goods and service tax, which shifts the present base of indirect taxation towards the free movement of products and services, is supposed to reduce the cascading impact of taxes and provide much-needed stimulation for economic growth in India. The automobile area has been waiting anxiously for this potential shift. However, there seems to be a sense of unfulfillment about the esteem attached compared to the enthusiasm it had implanted in the initial draught as GST prepares to be taken off with various tweaks and adjustments. However, the whole value chain of the auto sector supports GST concepts to gain the convenience of cooperating with the country.

India is rapidly expanding, and how it is doing so looks to have a decent association with the strategic modifications that influence both local request design and exchange. India is a global leader in the bike industry, producing motorcycles, mopeds, and engine cycles primarily with motor capacities under 200cc. Over the past five years, the bike industry in India has grown at an accelerated annual growth rate of over 15%, and Indian motorcycles comply with the strictest global standards for emissions and fuel efficiency. Bikes are made in India, where they are also the second-largest manufacturer worldwide.

India is the world's largest producer of tractors, the fifth largest producer of commercial vehicles, and the thirteenth largest producer of passenger cars.

The auto industry currently, directly, and indirectly, employs more than 30 million people. The automotive industry is a major employer in the OEM manufacturing facility that creates the automobiles, in the incoming auto component and coordination sector that produces and delivers parts and systems, and in the outward coordination and merchant sector that sells, maintains, and distributes the vehicles. Each delivered car generates secondary and tertiary labour. For each truck produced by the company, 13 people are employed, followed by 6 for each car, 4 for each three-wheeler, and 1 for each bike. The multiplier effect of the section on financial mobility must be valued. By 2020, if the company grows as much as it possibly might, it could employ more than 35 million people.

Features of GST

- GST is founded on a dual tax that is distributed equally between the federal and state governments.
- Except for petrol, alcoholic beverages, and electricity, practically all products will be subject to the GST.
- GST is a multi-tax that is dependent on the destination and subject to input tax credits at certain levels.
- To appropriately claim ITCs and calculate tax on the ultimate consumption of goods and services, GST is computed using the invoice credit technique.
- Through potential legislation, there is a correct process for collecting GSTs.
- All taxable entities that fall beyond certain thresholds must register for GST.

Needs of GST

The following are the GST assistance that professionals have registered:

The Goods and Service Tax (GST) Law is the most significant change that has been made to lessen the drawbacks of the previous indirect taxation system in India. An unremitting chain of set-off from the original producer's point and service provider's point upon the retailer's level is established under the GST regime, which lessens the burden of all cascading effects. State-level VAT and CENVAT are combined into Common Law under the GST regime. This is the fundamental idea of GST, and it is why it is an improvement over the old system of VAT plus fragmented service tax rather than just State VAT (including Service Tax).

The Indian Automobile Industry India is making rapid development and is on track to become the third-largest economy in the world by 2030. The administration is making tremendous efforts to boost the county's overall economic growth. India has one of the largest automobile industries in the world. 7.1% of the nation's Gross Domestic Product (GDP) is attributed to the industry. In 2018, India became the fourth-largest car market, with sales rising 8.3% annually to 3.99 million vehicles. India is one of the biggest producers of tractors, the second largest producer of two-wheelers, the second largest producer of buses, the fifth largest producer of heavy trucks, the sixth largest producer of cars, and the eighth largest producer of

commercial vehicles worldwide. The automotive mission plan 2026 aims to place the Indian automotive sector among the top three in the world for the production, engineering, and exportation of automobiles and components. It is projected that the industry will contribute 12% of India's GDP during the following ten years. The automotive industry primarily consists of two types of vehicles: commercial and non-commercial. The former includes three-wheelers and minibuses, while the latter includes personal vehicles like two-wheelers, compact and luxury cars, SUVs, etc.

Review of Literature

From below literature survey below, I got the idea from my research that innovative service processes and strategies play a strong role in maintaining customer relationships through their experience with the provider.

Kumar R (2016) has identified the Impact of GST on the Indian Economy with an evaluation of GST and the preceding taxation system and determined that after implementation of GST, manufacturers, wholesalers, and retailers can recover easily input taxes in the form of tax credits.

Lourdunathan F. and Xavier P. (2016) have exposed the challenging prospects of implementing GST, stating that GST will fetch one nation one tax that will discharge producers and consumers from several taxes.

Neelavathi K. and Sharma R. (2017) identified the impact of GST on the automobile industry, the study concluded that the automobile industry can develop one of the important contributors to the economic growth of the country as well as help in growing the employment opportunity. They were fruitfully able to analyse different tax rates levied on vehicles during the pre-post period of GST.

Research Gap

The literature analysis reveals that there have been several research on VAT and GST in India. These studies were conducted when the GST regulatory framework was being developed. These studies mostly contribute to the discussion of the GST Law's design. Therefore, several presumptions that may or may not serve as the foundation for GST laws have been made in the context of this research. To the best of our knowledge and belief, no such in-depth analysis of the effects of real GST laws on the Indian automobile industry has been done. The current study is a modest attempt to close the gap.

Research Objectives

- The main objectives of the study are:
- To find out the specific issues and the probable financial impact of GST on the automobile sector in India
- To Suggest definite procedures to discourse the issues of the Automobile Sector
- To analyse tax levied on different categories of vehicles
- Examine the impact of GST on approved future investments in the Automobile sector.

Research Design

This Research is descriptive as it designates the impact of GST on the Automobile sector in India.

Data Collection

The study will be based mainly on secondary data. Various sources will be tried to obtain these data like government websites, research journals, newspapers etc.

GST Rates on The Automobile Industry

Description of the motor vehicle	GST Rate	Cess
Motor vehicles for the transport of not more than 13 persons, including the driver		15%
Motor vehicles, excluding ambulances, three-wheelers and vehicles of engine capacity not exceeding 1200cc and of length not exceeding 4000 mm, with both spark -ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion or with both compression -ignition internal combustion piston engine [diesel -or semi diesel] and electric motor as motors for propulsion		15%
Petrol, liquefied petroleum gas (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity not exceeding 1200cc and of length not exceeding 4000mm.	18%	1%
Diesel-driven motor vehicles of engine capacity not exceeding 1500cc and of length not exceeding 4000mm.	18%	3%
Motor vehicles of engine capacity not exceeding 1500 cc		17%
Motor vehicles of engine capacity exceeding 1500 cc other than motor vehicles specified against entry at S. No 52B		20%
Motor vehicles of engine capacity over 1500cc, popularly known as Sports Utility Vehicles (SUVs) including utility vehicles.		22%
All old and used motor vehicles, electric vehicles, and vehicles cleared as ambulances		Nil
Refrigerated motor vehicles	18%	
Special-purpose motor vehicles	18%	
Motor vehicles to transport ten or more persons, including the driver, apart from buses used for public transport, which exclusively run on Biofuels	28%	
Motor cars and other motor vehicles mainly designed for passenger transport, apart from those mentioned above, including station wagons, and racing cars, leaving out cars for physically handicapped persons	28%	
Goods transport vehicle (other than refrigerated)	28%	

Impact of GST on The Automobile Industry

The two taxes charged to the end consumer on cars and bikes previously were excise and VAT, with an average combined rate of 26.50% to 44% which is higher than the GST rate of 18% and 28%. Therefore, there has been less burden of tax on the end consumer under GST.

Importers/dealers can cheer as they would be able to claim the GST paid on goods imported/sold whereas previously, they were ineligible to claim the excise duty and VAT paid.

Excise paid on stock transfer would be covered by IGST under the GST law. Advance received for the supply of goods will also be taxed under GST. GST would help manufacturers procure auto parts at a cheaper cost due to an improved supply chain mechanism under GST.

GST on cars and bikes are kept under the 28% bracket and a list of cesses to be levied on a different kind of automobile has also been declared by the Indian Government. Cess has been levied on different kinds of automobiles ranging from 1 to 15%. We have created an infographic for an understanding of different cess rates applied on different kinds of automobiles.

Positive Impacts of GST on The Sector

The introduction of GST has led to various affirmative influences on the automobile sector. In the erstwhile taxation regime, dealers could not claim the credit of Excise duty, CST,

and various cess which was paid earlier, thus inflating the purchase price of the vehicle. In the GST regime, CGST (Central Goods and Services Tax), SGST (State Goods and Services Tax), and IGST (Integrated Goods and Services Tax) paid will be fully available as credit to the dealers dealing in further supply of vehicles, thereby they will not add to the purchase price of the vehicle. In other words, the GST has eliminated the cascading effect of taxes, thereby reducing the price of automobiles.

Under the previous regime, automobile parts, accessories and components manufacturers were charging excise duty on MRP value-based abatement wherein the duty portion would be paid on the value higher than the transaction value, this led to higher excise costs on the spare parts and accessories procured by dealers. Since this concept is not continued in GST, such additional costs have come down.

Another benefit of "One Nation, One Tax" is now the tax rates are the same across the country. Thereby, state-level tax arbitrages for a consumer are things of the past. This has reduced incidences of tax evasion which occur due to consumers buying vehicles from the states other than where they reside. Earlier, car dealers used to deliberately open delivery showrooms in states with lower taxes whereas sales showrooms were available at the point of sale. With GST coming in place, practically speaking, the necessity of dual showrooms lost its charm and further led the sector to merge the delivery showrooms and point-of-sales showrooms.

Before 1st July 2017, Central Sales Tax (CST) was levied when there were interstate sales, and credit on the same could not be claimed for the payment of output VAT. This issue is now eliminated with IGST applying to inter-state sales of goods or services, credit for which is easily available. Hence, there was a massive cost saving on account of the elimination of CST. Further, input tax credits on various other operating overheads such as advertisement, promotion, rent, etc. can now be claimed by the sector, which helped in the rationalisation of the operating cost.

A big relief under GST was that the law excludes subsidies provided by the Central Government and the State Government from the transaction value. Thus, the manufacturers of electric vehicles who enjoy huge subsidies from the government will also save massive tax costs, which would, in turn, be passed on to the consumers. Thereby, in case, any electric vehicle has a government subsidy, then GST would be charged on transaction value excluding the amount of subsidy. This provision is embedded in unambiguous terms in GST law itself, which has the effect of ironing out any interpretation issues.

Disadvantages of GST on The Sector

On the flip side, under GST, tax is to be charged on vouchers or warranty cards issued to the customer as a part of after-sales services. GST must be paid at the time of issue of the vouchers or warranty cards on the money value of the goods or services or both redeemable against the vouchers or warranty cards. Thus, working capital to the extent of tax would be blocked at the time of issue of the vouchers even though they are redeemable later.

Under GST, discounts will be excluded from the value of supply only if they are included in the invoice or if it is provided because of an agreement executed either before or at the time of supply. In the automotive industry, it is a normal practice for the manufacturers/ importers to give post-sales discounts to the dealers whilst the dealers also offer promotion schemes to the customers. These discounts are seasonal and would not be linked to specific invoices. Thus, this would also pose considerable problems during taxation.

Under the GST regime, automobile dealers and manufacturers charge an amount for the sale of vehicles, and other ancillary services such as insurance, accessories, etc. Taxation of these supplies would be a big challenge in the future keeping in differential tax treatments for composite supply and mixed supply. This would be an area for litigation in the future, as until now no clarification has been issued by the GST policy wing for the automobile industry and its various sale packages.

CONCLUSION

The introduction of GST has spawned a worthwhile impact on the automobile sector. Despite the certain blockages in the working capital caused due to the regulations, the elimination of the cascading effect of taxes, incessant flow of credit, and reduction in the number of taxes have caused an overall positive impact on the industry. However, this sector has been severely hit by the impact of Covid-19.

The COVID-19 pandemic has resulted in the truncation of consumer demand in the short run and is also expected to change long-term consumer preferences moving them away from luxuries. Companies are expected to make strategic decisions and exit unprofitable local markets and significantly lower output as manufacturing capacity is being consolidated. Building up unsold inventory would lead to the accumulation of tax credits, which would result in lowering GST contributions to the exchequer. The Financial Year 2020-2021, would be one of the worst years for the automobile sector as the demand would bottom out and the government is not in favour of rationalising the tax rates which could help bring back the demand in the sector.

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